

**Central Montcalm Public School
Stanton, Michigan**

FINANCIAL STATEMENTS

June 30, 2004

Central Montcalm Public School

Stanton, Michigan

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June 30, 2004

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Central Montcalm Public School

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Montcalm Public School's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Central Montcalm Public School for the year ended June 30, 2003, were audited by other auditors whose report, dated October 10, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

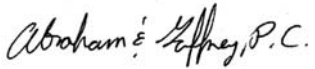
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2004 on our consideration of Central Montcalm Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Montcalm Public School's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2004

Central Montcalm Public School

Management's Discussion and Analysis

This section of the Central Montcalm Public School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2004. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Central Montcalm Public School financially as a whole. The **district-wide** financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The **fund** financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund, the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary (Student Activities Agency) net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The structure of the financial statements is as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Financial Statements

(Required Supplementary Information)
Budgetary Information for Major Funds

Other Supplementary Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, the condition of the district's assets and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Central Montcalm Public School

Management's Discussion and Analysis

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2004 with comparative information as of June 30, 2003:

Table 1	Statement of Net Assets June 30, 2003 <i>(millions)</i>	June 30, 2004 <i>(millions)</i>
Assets		
Current and other assets	\$ 5.7	\$ 5.7
Capital Assets	<u>28.8</u>	<u>28.2</u>
Total Assets	34.5	33.9
Liabilities		
Current Liabilities	3.4	3.9
Noncurrent Liabilities	<u>22.6</u>	<u>22.6</u>
Total Liabilities	26.0	26.5
Net Assets		
Invested in capital assets, Net of related debt	5.7	5.4
Restricted	0.3	0.1
Unrestricted	<u>2.5</u>	<u>1.9</u>
	<u>\$ 8.5</u>	<u>\$ 7.4</u>

The analysis in Table 1 focuses on the net assets of the district. The affect on net assets as a result of the fiscal year activities is reflected in Table 2.

The School District's net assets were \$ 8.5 million at June 30, 2003 and \$7.4 million at June 30, 2004 (Table 1). The \$1.1 million reduction in net assets is due to excess asset depreciation over capital expenditures (\$.5 million), the classification of prior year State Aid adjustments as long-term debt (\$.3 million) and the planned use of fund equity in the 2003/04 fiscal year (\$.3 million).

Capital assets, net of related debt totaling \$5.4 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Capital assets also reflect investments in capital assets from operating funds. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Durant loan obligations of the State are included in Long-Term obligations of the School District. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Restricted Net Assets reflect the Debt Service fund balances less accrued interest on long-term debt as of June 30, 2004. Unrestricted Net Assets reflect those assets available to the school district for use in its operation.

Central Montcalm Public School

Management's Discussion and Analysis

The \$1.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities (Table 2), which shows the changes in net assets for fiscal year 2003/04. Depreciation costs are allocated to areas of activities (Instruction, Support Services, Food Services, etc.). This allocation of depreciation expense is intended to reflect the true cost of these activities.

Governmental Activities (in millions)

Table 2

	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Revenue		
Program Revenue:		
Charges for services	\$ 0.3	\$ 0.3
Operating Grants	1.8	2.1
General revenue:		
Property Taxes	2.2	2.4
State foundation allowance	12.9	12.3
Other	<u>0.1</u>	<u>0.1</u>
Total Revenue	17.3	17.2
Functions/Program Expenses		
Instruction	9.9	9.9
Support Services	6.3	5.6
Food Services	0.6	0.7
Athletics	0.2	0.2
Payments to other districts	*	0.3
Interest on long-term debt	<u>1.3</u>	<u>1.3</u>
Total Expenses	<u>18.3</u>	<u>18.0</u>
Decrease in Net Assets	<u>\$(1.0)</u>	<u>\$(0.8)</u>

* - included in supporting services in prior year chart of accounts

Central Montcalm Public School

Management's Discussion and Analysis

The 2003/04 fiscal year presented a number of challenges for the school district, particularly in the General Fund. It was anticipated that expenses would outpace revenues. A number of events exacerbated the situation. Specifically, the Governor's action to prorate the per pupil foundation allowance decreased appropriated revenues approximately \$157,000 and continued double digit increases in health insurance costs. Other factors that affect the value of Net Assets are year-to-year cash balances in the debt retirement accounts as well as the fund balance in the School Service funds at year-end.

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$18.0 million. Certain activities were partially funded from those who benefited from the programs (\$.3 million charges for services) or by other governments and organizations that subsidized certain programs with operating grants and contributions (\$2.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.4 million in taxes (for General & Debt funds) and \$12.4 million in State foundation allowance and other revenues, i.e., interest and general entitlements. The decrease in Net Assets is mainly due to excess depreciation over capital expenditures (\$.5 million) and the planned use of General Fund, Fund Equity (\$.3 million).

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2.7 million, which is a decrease of \$.3 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$.3 million to \$2.2 million. The change is mainly due to:

- A decrease in foundation allowance revenue provided by the State of \$ 76 per pupil
- Increases in employee health care costs of over 17%

General Fund fund balance is available to fund costs related to allowable school operating purposes. Central Montcalm Public School uses its Fund Balance to "smooth" unexpected changes in revenues and/or expenses.

Our Special Revenue Funds remained constant. Special Revenue Funds include the Food Service, Athletics, and Community Service Funds.

The Debt Service Funds showed a fund balance increase of approximately \$100,000. This increase is due to the payoff of the 1973 Bond Issue debt in May 2003 and the increase in taxable valuations within the School District's boundaries. At this point the school district is required to borrow from the School Bond Loan fund in order to make its interest payments to bond holders. It is expected that the school district will continue to borrow from the School Bond Loan fund through 2011 at which time the locally generated revenue will be sufficient to meet the 1999 Bond obligations. From 2012 to 2025 the district will payoff the obligation to the bondholders and the School Bond Loan fund. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. During debt obligations are funded by annual State appropriation, and no fund balance exists at year-end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased as the School District continued construction related to the 1999 bond issue. The construction project was estimated to be 99 percent complete at June 30, 2003 with only minor expenditures taking place in the current year. Current and expected expenditures from this fund are related to finalizing the 1999 construction project and other allowable uses.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

There were significant revisions made to the 2003-2004 General Fund original budget. Budgeted revenues were increased \$.2 million due to better than originally expected revenue from the State. Expenditures were \$157,000 less than originally anticipated. The amount of other financing uses established in the amended budget was \$525,975 and represents support provided by the General Fund to other functions and obligations. An unexpected charge from the Intermediate School District in July 2004 accounts for the \$74,500 variance in budget to actual amounts in this category.

There were no other significant variances between the final budget and actual amounts.

Central Montcalm Public School

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the School District had almost \$34 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$0.5 million from last year.

	<u>2003</u>	<u>2004</u>
Land	\$ 12,802	\$ 12,802
Construction in progress	64,634	39,654
Buildings and building improvements	29,906,441	30,101,487
Buses and other vehicles	1,073,881	1,191,311
Furniture and equipment	<u>2,452,362</u>	<u>2,649,749</u>
Total historical cost	<u>\$ 33,510,120</u>	<u>\$ 33,995,003</u>

This year's additions of approximately \$0.5 million included technology, building renovations, buses, and other equipment. No new debt was issued for these additions.

Debt

At the end of this year, the School District had almost \$23.4 million in bonds and other obligations outstanding versus \$23.6 million (*restated*) in the previous year. Those bonds consisted of the following:

	<u>Restated 2003</u>	<u>2004</u>
General Obligation Bonds	\$ 20,500,917	\$ 19,940,917
School Bond Loan	2,467,768	2,938,955
State Aid Obligation	348,439	261,329
Employee compensated absences	<u>239,453</u>	<u>245,526</u>
Total	<u>\$ 23,556,577</u>	<u>\$ 23,386,727</u>

The School District's general obligation bond rating is Aaa as determined by Moody's Investor Service in April 2004. The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of \$23 million is below this statutorily imposed limit.

Other obligations including accrued vacation pay and sick leave are reported as required by GASB. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Central Montcalm Public School

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2004/05 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2005 fiscal year is 25 percent and 75 percent of the February 2004 and September 2004 student counts, respectively. This proration is a change from the 20/80 blend used in 2003/04. The 2004/05 budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Approximately 83 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2004/05 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2004/05 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates that funds are sufficient to fund the appropriation. If these estimates are not accurate the State may prorate State aid. Other factors affecting the 2004/05 budget is an 18% increase in health insurance costs and an increase in the School Employee retirement to 14.87% of eligible payroll.

During 2004, the School District settled labor contracts with the unionized staff. The financial impact on General Fund expenditures is estimated by the School District to be \$11,000 above the original budget projections.

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office.

Roger A. Thelen, Superintendent
621 New Street, PO Box 9
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BASIC FINANCIAL STATEMENTS

Central Montcalm Public School

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities
<hr/>	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,947,981
Due from other governmental units	2,732,092
Inventories	10,410
Prepays	800
	<hr/>
Total current assets	5,691,283
Noncurrent assets	
Capital assets, net of accumulated depreciation	<hr/> 28,221,457
	<hr/>
TOTAL ASSETS	33,912,740
 LIABILITIES	
Current liabilities	
Accounts payable	168,909
Accrued payroll	923,215
Other accrued liabilities	606,710
Due to other governmental units	74,550
Accrued interest payable	204,245
Short-term note payable	1,175,000
Current portion of compensated absences	120,623
Current portion of long-term debt	647,110
	<hr/>
Total current liabilities	3,920,362
Noncurrent liabilities	
Accrued interest payable	14,531
Compensated absences	124,903
Noncurrent portion of long-term debt	22,494,091
	<hr/>
Total noncurrent liabilities	22,633,525
	<hr/>
TOTAL LIABILITIES	26,553,887
 NET ASSETS	
Invested in capital assets, net of related debt	5,341,585
Restricted for debt service	101,682
Unrestricted	1,915,586
	<hr/>
TOTAL NET ASSETS	\$ 7,358,853
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See accompanying notes to financial statements.

Central Montcalm Public School

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Governmental Activities
Expenses				
Instruction	\$ 9,877,007	\$ -	\$ 1,272,240	\$ (8,604,767)
Supporting services	5,558,546	-	450,741	(5,107,805)
Food service	667,628	236,449	353,522	(77,657)
Athletics	219,110	70,096	-	(149,014)
Community services	32,101	-	-	(32,101)
Payments to other districts	356,215	-	-	(356,215)
Interest on long-term debt	1,281,723	-	-	(1,281,723)
TOTAL EXPENSES	\$ 17,992,330	\$ 306,545	\$ 2,076,503	(15,609,282)
General Revenues				
Property taxes				2,404,965
State school aid - unrestricted				12,367,515
Investment earnings				28,156
Miscellaneous				59,515
TOTAL GENERAL REVENUES				14,860,151
EXCESS OF REVENUES UNDER EXPENSES				(749,131)
Net assets, beginning of year				8,456,423
Prior period adjustment				(348,439)
Net assets, end of year				\$ 7,358,853

See accompanying notes to financial statements.

Central Montcalm Public School

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2004

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,435,324	\$ 512,657	\$ 2,947,981
Due from other funds	17,501	9,849	27,350
Due from other governmental units	2,726,418	5,674	2,732,092
Inventories	2,401	8,009	10,410
Prepaid expenditures	800	-	800
TOTAL ASSETS	\$ 5,182,444	\$ 536,189	\$ 5,718,633
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 143,628	\$ 25,281	\$ 168,909
Accrued payroll	922,299	916	923,215
Other accrued liabilities	617,062	70	617,132
Due to other funds	9,849	17,501	27,350
Due to other governmental units	74,550	-	74,550
Short-term note payable	1,175,000	-	1,175,000
TOTAL LIABILITIES	2,942,388	43,768	2,986,156
FUND BALANCE			
Reserved for			
Inventories and prepaid expenditures	3,201	8,009	11,210
Debt service	-	310,036	310,036
Unreserved			
Designated for capital projects	-	166,835	166,835
Undesignated, reported in:			
General fund	2,236,855	-	2,236,855
Special revenue funds	-	7,541	7,541
TOTAL FUND BALANCE	2,240,056	492,421	2,732,477
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,182,444	\$ 536,189	\$ 5,718,633

See accompanying notes to financial statements.

Central Montcalm Public School

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH
THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balance - governmental funds **\$ 2,732,477**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 33,995,003	
Accumulated depreciation is	<u>(5,773,546)</u>	28,221,457

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	(22,879,872)	
State Aid Obligation	(261,329)	
Accrued interest payable on long-term debt	(208,354)	
Compensated absences	<u>(245,526)</u>	<u>(23,595,081)</u>

Net assets of governmental activities **\$ 7,358,853**

See accompanying notes to financial statements.

Central Montcalm Public School

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	General	Other Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 1,016,238	\$ 1,773,746	\$ 2,789,984
State sources	13,288,381	39,232	13,327,613
Federal sources	547,837	314,287	862,124
OTHER FINANCING SOURCES			
Transfers from other funds	-	244,252	244,252
Bond and loan proceeds	-	393,818	393,818
Other transactions	176,368	-	176,368
TOTAL REVENUES AND OTHER FINANCING SOURCES	15,028,824	2,765,335	17,794,159
EXPENDITURES			
Current			
Instruction	8,965,093	-	8,965,093
Supporting services	5,774,565	-	5,774,565
Food service	-	646,858	646,858
Athletics	-	201,645	201,645
Community service	-	32,101	32,101
Debt service			
Principal retirement	-	560,000	560,000
Interest, fiscal and other charges	-	1,190,845	1,190,845
Capital outlay	-	120,809	120,809
OTHER FINANCING USES			
Transfers to other funds	244,252	-	244,252
Payments to other districts	356,215	-	356,215
TOTAL EXPENDITURES AND OTHER FINANCING USES	15,340,125	2,752,258	18,092,383
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(311,301)	13,077	(298,224)
Fund balances, beginning of year	2,551,357	479,344	3,030,701
Fund balances, end of year	\$ 2,240,056	\$ 492,421	\$ 2,732,477

See accompanying notes to financial statements.

Central Montcalm Public School

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2004

Net change in fund balances - total governmental funds \$ (298,224)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 484,883	
Depreciation expense	<u>(1,092,131)</u>	
Excess of depreciation expense over capital outlay		(607,248)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures, reductions to state aid, and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Long-term debt principal retirement	647,110	
Bond proceeds	(393,818)	
Bond proceeds (accrued SBLF interest)	<u>(77,369)</u>	
Excess of principal retirement over bond proceeds		175,923

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(13,509)	
(Increase) in compensated absences	<u>(6,073)</u>	
		<u>(19,582)</u>

Change in net assets of governmental activities \$ (749,131)

See accompanying notes to financial statements.

Central Montcalm Public School

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

	Agency Fund
ASSETS	
Cash	<u>\$ 109,417</u>
LIABILITIES	
Due to student activities	<u>\$ 109,417</u>

See accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Central Montcalm Public School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of Central Montcalm Public School (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major fund and aggregated non-major funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Non-major funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year with the final amendments being approved June 14, 2004.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts. Cash equivalents are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2004, to be paid in July and August 2004. The total amount of \$2,732,092 due from other governmental units consists of \$2,432,108 and \$299,984 related to State Aid and grant and local programs, respectively.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of paper. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than five (5) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-15 years

The District has no assets that would be classified as infrastructure assets.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, Accounting for Compensated Absences, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: interest payable on general obligation bonds and interest payable on Durant Resolution bonds. The interest payable on the Durant Resolution bonds is shown as a non-current liability due to the State of Michigan suspending the payments to the District that are used for debt service. See related note in these financial statements. The payments are scheduled to be suspended for the 2005 fiscal year as well, resuming on May 15, 2006.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on the average of pupil membership counts taken in September 2003 and February 2003. The average calculation was weighted 80% for the September 2003 count and 20% for the February 2003 count.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. State Foundation Revenue - continued

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

As of June 30, 2004, the carrying amount of the District's deposits was \$3,056,018 and the bank balance was \$3,362,381, of which \$300,000 was covered by federal depository insurance. The balance of \$3,062,381 was uninsured and uncollateralized. The District had \$1,380 of imprest cash on hand as of June 30, 2004.

As of June 30, 2004, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	<u>\$ 2,947,981</u>	<u>\$ 109,417</u>	<u>\$ 3,057,398</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions/ reclassifications</u>	<u>Deletions/ reclassifications</u>	<u>Balance June 30, 2004</u>
Governmental activities				
Land	\$ 12,802	\$ -	\$ -	\$ 12,802
Construction in progress	64,634	39,654	64,634	39,654
Buildings and building improvements	29,906,441	195,046	-	30,101,487
Buses and other vehicles	1,073,881	117,430	-	1,191,311
Furniture and equipment	<u>2,452,362</u>	<u>197,387</u>	<u>-</u>	<u>2,649,749</u>
Totals at historical cost	33,510,120	549,517	64,634	33,995,003

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance <u>July 1, 2003</u>	Additions/ <u>reclassifications</u>	Deletions/ <u>reclassifications</u>	Balance <u>June 30, 2004</u>
Less accumulated depreciation for:				
Buildings and building improvements	\$(3,408,690)	\$(588,725)	\$ -	\$(3,997,415)
Buses and other vehicles	(402,206)	(114,318)	-	(516,524)
Furniture and equipment	(870,519)	(389,088)	-	(1,259,607)
Total accumulated depreciation	(4,681,415)	(1,092,131)	-0-	(5,773,546)
Capital assets, net	<u>\$ 28,828,705</u>	<u>\$(542,614)</u>	<u>\$ 64,634</u>	<u>\$ 28,221,457</u>

Depreciation expense was allocated to governmental activities of the school district as follows:

Instruction	\$ 905,841
Supporting services	148,055
Food service	20,770
Athletics	17,465
	<u>\$ 1,092,131</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2004.

	Restated Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>	Amounts Due within <u>One Year</u>
1999 General Obligation Bonds	\$20,345,000	\$ -	\$ 560,000	\$19,785,000	\$ 560,000
1998 Durant Resolution Bonds	155,917	-	-	155,917	-
Michigan School Bond Loans					
Principal and interest	2,467,768	471,187	-	2,938,955	-
State Aid Obligation	348,439	-	87,110	261,329	87,110
Compensated Absences	<u>239,453</u>	<u>6,073</u>	<u>-</u>	<u>245,526</u>	<u>120,623</u>
	<u>\$23,556,577</u>	<u>\$ 477,260</u>	<u>\$ 647,110</u>	<u>\$23,386,727</u>	<u>\$ 767,733</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation

\$22,585,000 1999 School Building and Site Bonds dated November 1, 1999, due in annual installments ranging from \$560,000 to \$850,000 through May 1, 2029, with interest ranging from 5.25 to 6.50 percent, payable semi-annually \$19,785,000

Resolution

\$244,052 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$11,813 to \$58,305 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2006. 155,917

\$19,940,917

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE D: LONG-TERM DEBT - CONTINUED

Michigan School Bond Loans

The School District borrows on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 2.625 to 2.875 percent.

The School District has borrowed \$393,818 in principal during this fiscal year. The balances at June 30, 2004, are as follows:

Loan balance	\$ 2,695,114
Interest balance	<u>243,841</u>
	<u>\$ 2,938,955</u>

State Aid Obligation - In accordance with the letter dated June 11, 2003 from the State of Michigan Department of Education the District was overpaid State Aid \$435,549 related to their Adult Education program in previous years. The State of Michigan has allowed these funds to be repaid as a state aid reduction over a five (5) year period commencing in the 2002/03 fiscal year. The annual payments are \$87,110 and will be recaptured through the 2006/07 without interest. For the year ended June 30, 2004, the outstanding liability was \$261,329

Compensated Absences - In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts:

Teachers will be paid for a maximum of 145 days unused sick days based on the following computation:

<u>Accumulated Days</u>	<u>Amount</u>
Less than 90	\$25 per day accumulated
90-109	\$30 per day accumulated
110-145	\$35 per day accumulated

All other staff will be paid \$20 per unused sick day accumulated.

The superintendent's, administrators', and other union exempt employees' maximum sick and vacation pay is based on individual agreements.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2004, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2004, which have been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 119,608	\$ 108,470	\$ 228,078
Payroll taxes	<u>9,150</u>	<u>8,298</u>	<u>17,448</u>
	<u>\$ 128,758</u>	<u>\$ 116,768</u>	<u>\$ 245,526</u>

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>		<u>State Aid</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Obligation</u> <u>Principal</u>
2005	\$ -	\$ -	\$ 560,000	\$ 1,162,948	\$ 87,110
2006	11,813	5,325	560,000	1,126,547	87,110
2007	12,373	4,763	560,000	1,090,147	87,109
2008	12,965	4,174	560,000	1,053,747	-
2009	13,582	3,556	560,000	1,017,348	-
2010-2014	105,184	27,103	4,235,000	4,452,385	-
2015-2019	-	-	4,250,000	3,249,125	-
2020-2024	-	-	4,250,000	2,008,125	-
2025-2029	-	-	4,250,000	765,000	-
	<u>\$ 155,917</u>	<u>\$ 44,921</u>	<u>\$19,785,000</u>	<u>\$15,925,372</u>	<u>\$ 261,329</u>

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2006. It appears this suspension will have no financial impact on Central Montcalm Public School in the future.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2004, are as follows:

Due to general fund from	
Non-major governmental funds	\$ 17,501
Due to non-major governmental funds from	
General fund	<u>9,849</u>
	<u>\$ 27,350</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to non-major governmental funds from:	
General fund	<u>\$ 244,252</u>

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2002, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPSERS for the year ended June 30, 2004, was \$9,030,251 of which \$6,551,657 was for members who have elected the MIP option; the District's total payroll was \$9,106,739.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2003 to June 30, 2004, the District was required by State statute to contribute 12.99% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2004, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2004	\$ 253,386	\$ 1,173,030	\$ 1,426,416
2003	*	1,234,428	N/A
2002	*	1,135,353	N/A

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2004	4.0 %	13.0 %
2003	*	*
2002	*	*

* Retirement system data for these years was not available at the time of audit.

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance in the Fund financial statements indicates that portion of fund balance which the District has set aside for specific purposes.

The following are the fund balances reserve as of June 30, 2004:

General Fund	
Reserved for inventories	\$ 3,201
Special Revenue Fund	
Food Service	
Reserved for inventories	8,009
Debt Service Fund	
Reserved for debt service	<u>310,036</u>
	<u>\$ 321,246</u>

The following is the fund balance designation as of June 30, 2004:

Capital Projects Funds	
Designated for capital projects	<u>\$ 166,835</u>

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2004:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for Debt Service	<u>\$ 101,682</u>

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE J: RISK MANAGEMENT

The District is exposed to various risks of loss including losses related to the District's workers' compensation and employer's liability, auto, liability, property, and errors and omissions for which the District carries commercial insurance.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Central Montcalm Public School, a nonplaintiff District, was awarded \$488,104 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Payments to other districts	\$ 281,700	\$ 356,215	\$ 74,515
Special Revenue Funds			
Food service	600,800	646,858	46,058
Athletics	191,785	201,645	9,860

The budget overage related to the General Fund was a result of transportation charges related to the Intermediate School District. The budget overage related to the Food Service Fund is the result of the recognition of the revenue and expenditure related to Federal commodities.

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE M: PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was made during the current period, which was the result of a correction of an accounting error. This adjustment was reported as a charge to beginning net assets at the district-wide statements. The effect on operations and other affected balances for the current year and prior period are as follows:

	June 30,		
	<u>2003</u>	<u>2004</u>	<u>Description</u>
Governmental Activities			
Long-term debt	\$ -	\$ 348,439	Correct understated long-
Net assets - beginning	-	(348,439)	term debt

NOTE N: SHORT-TERM NOTES

On August 21, 2003, the District paid off the 2002 State Aid note with a principal amount of \$835,000. On August 20, 2003, the District issued a short-term State School Aid Anticipation Note in the amount of \$1,175,000 for the purpose of funding operating expenditures until the fiscal year 2004 State Aid payments resumed. The outstanding balance was scheduled to be paid off on August 20, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 1,079,500	\$ 1,011,500	\$ 1,016,238	\$ 4,738
State sources	12,968,895	13,379,250	13,288,381	(90,869)
Federal sources	625,000	550,000	547,837	(2,163)
OTHER FINANCING SOURCES				
Other transactions	<u>125,000</u>	<u>143,000</u>	<u>176,368</u>	<u>33,368</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	14,798,395	15,083,750	15,028,824	(54,926)
EXPENDITURES				
INSTRUCTION				
Basic programs	7,322,230	7,386,235	7,196,381	189,854
Added needs	<u>1,756,815</u>	<u>1,793,000</u>	<u>1,768,712</u>	<u>24,288</u>
TOTAL INSTRUCTION	9,079,045	9,179,235	8,965,093	214,142
SUPPORTING SERVICES				
Pupil	614,440	588,690	581,846	6,844
Instructional staff	588,330	491,980	476,713	15,267
General administration	445,025	438,275	431,857	6,418
School administration	1,276,260	1,258,540	1,227,604	30,936
Business and central services	<u>3,046,840</u>	<u>3,089,915</u>	<u>3,056,545</u>	<u>33,370</u>
TOTAL SUPPORTING SERVICES	<u>5,970,895</u>	<u>5,867,400</u>	<u>5,774,565</u>	<u>92,835</u>
TOTAL EXPENDITURES	15,049,940	15,046,635	14,739,658	306,977
OTHER FINANCING USES				
Transfers to other funds	194,575	244,275	244,252	23
Payments to other districts	<u>252,500</u>	<u>281,700</u>	<u>356,215</u>	<u>(74,515)</u>
TOTAL OTHER FINANCING USES	<u>447,075</u>	<u>525,975</u>	<u>600,467</u>	<u>(74,492)</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>15,497,015</u>	<u>15,572,610</u>	<u>15,340,125</u>	<u>232,485</u>

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(698,620)	(488,860)	(311,301) 177,559
Fund balance, beginning of year	<u>2,551,357</u>	<u>2,551,357</u>	<u>2,551,357</u> -0-
Fund balance, end of year	<u>\$ 1,852,737</u>	<u>\$ 2,062,497</u>	<u>\$ 2,240,056</u> \$ 177,559

OTHER SUPPLEMENTARY INFORMATION

Central Montcalm Public School

Non-major Governmental Funds

COMBINING BALANCE SHEET

June 30, 2004

	Special Revenue Funds		
	Food Service	Athletics	Community Service
ASSETS			
Cash and cash equivalents	\$ 19,940	\$ 537	\$ 793
Due from other funds	-	6,527	682
Due from other governmental units	5,674	-	-
Inventories	8,009	-	-
TOTAL ASSETS	<u>\$ 33,623</u>	<u>\$ 7,064</u>	<u>\$ 1,475</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 7,326	\$ 1,236	\$ -
Accrued payroll	-	916	-
Other accrued liabilities	-	70	-
Due to other funds	17,002	62	-
TOTAL LIABILITIES	24,328	2,284	-0-
FUND BALANCES			
Reserved for inventories and prepaid expenditures	8,009	-	-
Reserved for debt service	-	-	-
Unreserved			
Designated for capital projects	-	-	-
Undesignated, reported in special revenue funds	1,286	4,780	1,475
TOTAL FUND BALANCES	<u>9,295</u>	<u>4,780</u>	<u>1,475</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 33,623</u>	<u>\$ 7,064</u>	<u>\$ 1,475</u>

Debt Service Funds		Capital Projects Funds		
1999 Debt	1973 Debt	Public Improvement	1999 Capital Projects	Total
\$ 307,396	\$ -	\$ 107,918	\$ 76,073	\$ 512,657
2,140	500	-	-	9,849
-	-	-	-	5,674
-	-	-	-	8,009
<u>\$ 309,536</u>	<u>\$ 500</u>	<u>\$ 107,918</u>	<u>\$ 76,073</u>	<u>\$ 536,189</u>
\$ -	\$ -	\$ 16,719	\$ -	\$ 25,281
-	-	-	-	916
-	-	-	-	70
-	-	437	-	17,501
-0-	-0-	17,156	-0-	43,768
-	-	-	-	8,009
309,536	500	-	-	310,036
-	-	90,762	76,073	166,835
-	-	-	-	7,541
<u>309,536</u>	<u>500</u>	<u>90,762</u>	<u>76,073</u>	<u>492,421</u>
<u>\$ 309,536</u>	<u>\$ 500</u>	<u>\$ 107,918</u>	<u>\$ 76,073</u>	<u>\$ 536,189</u>

Central Montcalm Public School

Non-major Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

For the year ended June 30, 2004

	Special Revenue Funds		
	Food Service	Athletics	Community Service
REVENUES			
Local sources	\$ 236,451	\$ 40,020	\$ 30,075
State sources	39,232	-	-
Federal sources	314,287	-	-
OTHER FINANCING SOURCES			
Transfers from other funds	1,677	162,575	-
Bond and loan proceeds	-	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	591,647	202,595	30,075
EXPENDITURES			
Current			
Food service	646,858	-	-
Athletics	-	201,645	-
Community service	-	-	32,101
Debt service			
Principal retirement	-	-	-
Interest, fiscal and other charges	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	646,858	201,645	32,101
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(55,211)	950	(2,026)
Fund balances, beginning of year	64,506	3,830	3,501
Fund balances, end of year	\$ 9,295	\$ 4,780	\$ 1,475

<u>Debt Service Funds</u>		<u>Capital Projects Funds</u>		
<u>1999 Debt</u>	<u>1973 Debt</u>	<u>Public Improvement</u>	<u>1999 Capital Projects</u>	<u>Total</u>
\$ 1,465,644	\$ -	\$ 632	\$ 924	\$ 1,773,746
-	-	-	-	39,232
-	-	-	-	314,287
-	-	80,000	-	244,252
393,818	-	-	-	393,818
1,859,462	-	80,632	924	2,765,335
-	-	-	-	646,858
-	-	-	-	201,645
-	-	-	-	32,101
560,000	-	-	-	560,000
1,190,845	-	-	-	1,190,845
-	-	84,164	36,645	120,809
1,750,845	-0-	84,164	36,645	2,752,258
108,617	-0-	(3,532)	(35,721)	13,077
200,919	500	94,294	111,794	479,344
<u>\$ 309,536</u>	<u>\$ 500</u>	<u>\$ 90,762</u>	<u>\$ 76,073</u>	<u>\$ 492,421</u>

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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the basic financial statements of the Central Montcalm Public School as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

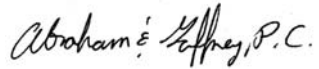
Compliance

As part of obtaining reasonable assurance about whether Central Montcalm Public School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Montcalm Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 5, 2004

This report is intended solely for the information and use of the administration and Board of Education of Central Montcalm Public School, the pass-through grantors, and the U.S. Departments of Agriculture and Education and is not intended to be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2004

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To the Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the financial statements of Central Montcalm Public School for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 7, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Central Montcalm Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Central Montcalm Public School's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Central Montcalm Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Central Montcalm Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Central Montcalm Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Central Montcalm Public School are described in Note A to the general purpose financial statements. We noted no transactions entered into by Central Montcalm Public School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the historical termination vesting percentages for severance payments is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years. We evaluated the key factors and assumptions used to develop the historical termination vesting percentages for severance payments in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Central Montcalm Public School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Central Montcalm Public School, either individually or in the aggregate, indicate matters that could have a significant effect on Central Montcalm Public School's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Central Montcalm Public School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the administration and Board of Education of Central Montcalm Public School and should not be used for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2004

Central Montcalm Public School

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2004

Central Montcalm Public School

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

Compliance

We have audited the compliance of the Central Montcalm Public School with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to the major Federal programs for the year ended June 30, 2004. The Central Montcalm Public School's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of the Central Montcalm Public School's administration. Our responsibility is to express an opinion on the Central Montcalm Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major Federal programs occurred. An audit includes examining, on a test basis, evidence about the Central Montcalm Public School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Central Montcalm Public School's compliance with those requirements.

In our opinion, the Central Montcalm Public School complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ended June 30, 2004.

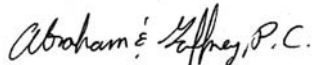
Internal Control Over Compliance

The administration of the Central Montcalm Public School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Central Montcalm Public School's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the basic financial statements of the Central Montcalm Public School as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise Central Montcalm Public School's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Central Montcalm Public School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of the Central Montcalm Public School, the pass-through grantors, and the U.S. Departments of Agriculture and Education and is not intended to be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2004

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended June 30, 2004

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Restated Program or Award Amount</u>	<u>(Memo Only) Restated Prior Years' Expenditures</u>
U.S. DEPARTMENT OF EDUCATION				
Passed Through State Department of Education				
E.S.E.A. Title I	84.010 ^(e)			
2002-03 Regular - Part A		0215300203	\$ 29,955	\$ 29,955
2002-03 Carryover - Part A		0315300304	67,687	-
2002-03 Regular - Part A		0315300203	384,489	379,021
2003-04 Regular - Part A		0415300304	<u>395,658</u>	<u>-</u>
			877,789	408,976
Title VI I.E.P.S.	84.298			
2002-03		0302500203	11,468	11,468
2003-04		0402500304	<u>12,970</u>	<u>-</u>
			24,438	11,468
Technology Literacy Challenge Grants	84.318			
2002-03 Ed Tech - Formula Grant		0342900203	13,047	13,047
2003-04 Ed Tech - Formula Grant		0442900304	<u>10,998</u>	<u>-</u>
			24,045	13,047
Improving Teacher Quality	84.367			
2002-03		0305200203	128,543	128,543
2003-04		0405200304	<u>130,847</u>	<u>-</u>
			259,390	128,543
Passed Through State Department of Education and Kent Intermediate School District				
Drug-Free Program	84.186			
2003-04		0303-0969A2	<u>3,500</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,189,162	562,034
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through State Department of Education				
School Breakfast Program	10.553 ^(f)			
2001-02		21970	52,806	52,668
2002-03		31970	62,317	54,899
2003-04		41970	<u>53,177</u>	<u>-</u>
			168,300	107,567
National School Lunch Program	10.555 ^(f)			
2001-02		21950,21960	211,897	211,301
2002-03		31950,31960	255,255	229,066
2003-04		41950,41960	<u>186,716</u>	<u>-</u>
			653,868	440,367

<u>Balance July 1, 2003</u>		<u>Cash Receipts/ In-Kind Payments</u>	<u>Balance June 30, 2004</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Balance June 30, 2004</u>
<u>Restated Inventory/ Cash or (Payables)</u>	<u>Restated Accrued or (Deferred) Revenue</u>		<u>Accrued or (Deferred) Revenue</u>			<u>Inventory/ Cash or (Payables)</u>
\$ (29,955)	\$ 29,955	\$ 29,955	\$ -	\$ -	\$ -	\$ -0-
-	-	-	67,687	67,687	67,687	(67,687)
(73,456)	73,456	78,924	-	5,468	5,468	-0-
-	-	260,028	107,378	367,406	367,406	(107,378)
(103,411)	103,411	368,907	175,065	440,561	440,561	(175,065)
(11,468)	11,468	11,468	-	-	-	-0-
-	-	-	12,970	12,970	12,970	(12,970)
(11,468)	11,468	11,468	12,970	12,970	12,970	(12,970)
(13,047)	13,047	13,047	-	-	-	-0-
-	-	-	10,998	10,998	10,998	(10,998)
(13,047)	13,047	13,047	10,998	10,998	10,998	(10,998)
(128,543)	128,543	128,543	-	-	-	-0-
-	-	-	79,808	79,808	79,808	(79,808)
(128,543)	128,543	128,543	79,808	79,808	79,808	(79,808)
-	-	3,500	-	3,500	3,500	-0-
(256,469)	256,469	525,465	278,841	547,837	547,837	(278,841)
-	-	(138)	-	(138)	(138)	-0-
(8,266)	8,266	15,684	-	7,418	7,418	-0-
-	-	53,177	-	53,177	53,177	-0-
(8,266)	8,266	68,723	-0-	60,457	60,457	-0-
-	-	(596)	-	(596)	(596)	-0-
(28,773)	28,773	54,962	-	26,189	26,189	-0-
-	-	186,716	-	186,716	186,716	-0-
(28,773)	28,773	241,082	-0-	212,309	212,309	-0-

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For Year Ended June 30, 2004

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Restated Program or Award Amount</u>	<u>(Memo Only) Restated Prior Years' Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE - CONTINUED				
Passed Through State Department of Education				
Food Donation	10.550			
Entitlement commodities		59125	\$ 34,106	\$ -
Bonus commodities		59125	<u>7,415</u>	<u>-</u>
			<u>41,521</u>	<u>-0-</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>863,689</u>	<u>547,934</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,052,851</u>	<u>\$ 1,109,968</u>

<u>Balance July 1, 2003</u>		<u>Cash Receipts/ In-Kind Payments</u>	<u>Balance June 30, 2004</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Balance June 30, 2004</u>
<u>Restated Inventory/ Cash or (Payables)</u>	<u>Restated Accrued or (Deferred) Revenue</u>		<u>Accrued or (Deferred) Revenue</u>			<u>Inventory/ Cash or (Payables)</u>
\$ -	\$ -	\$ 34,106	\$ -	\$ 34,106 ^(a)	\$ 34,106 ^(c)	\$ -0-
-	-	7,415	-	7,415 ^(a)	7,415 ^(c)	-0-
-0-	-0-	41,521	-0-	41,521	41,521	-0-
(37,039)	37,039	351,326	-0-	314,287	314,287	-0-
<u>\$(293,508)</u>	<u>\$ 293,508</u>	<u>\$ 876,791</u> ^(d)	<u>\$ 278,841</u>	<u>\$ 862,124</u> (g)	<u>\$ 862,124</u> ^(b)	<u>\$(278,841)</u>

Central Montcalm Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Central Montcalm Public School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which are in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report except for the following, which was the result of an adjustment in the current payment column to move the program from project number 021190 to 011190 for the MCDC:

<u>Project Name/#</u>	<u>Amount</u>
Adult Ed - State Admin #011190210392	\$(<u>1,560</u>)

This amount did not have a "cash receipt" effect on the District so it is reflected in these notes only.

- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the basic financial statements of the Central Montcalm Public School as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

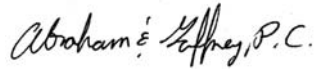
Compliance

As part of obtaining reasonable assurance about whether the Central Montcalm Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Central Montcalm Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 5, 2004.

This report is intended for the information and use of the administration and Board of Education of the Central Montcalm Public School, the pass-through grantors, and the U.S. Departments of Education and Agriculture and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2004

Central Montcalm Public School

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts and grants that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Title I (CFDA 84.010) program. Total Federal expenditures for the year ended June 30, 2004 for the major programs was \$440,561, which is approximately 51 percent of total Federal expenditures. The District was determined to qualify as a low risk auditee.

The District had one (1) Type A program Title I (CFDA 84.010) \$440,561. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Central Montcalm Public School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

The prior year reportable condition, as noted by previous auditors, which was not considered a material weakness, related to time certifications for Title I (03-1) has been resolved.

FORM **SF-SAC**
(5-2004)U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**RETURN
TO****Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132****PART I****GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

1. Fiscal period ending date for this submission <table border="1"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> </tr> <tr> <td>06</td> <td>30</td> <td>2004</td> </tr> </table> Fiscal Period End Dates Must Be In 2004, 2005, or 2006		Month	Day	Year	06	30	2004	2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit				
Month	Day	Year										
06	30	2004										
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other — Months		4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse										
5. Auditee Identification Numbers												
a. Primary Employer Identification Number (EIN) <table border="1"> <tr> <td>3</td><td>8</td><td>—</td><td>1</td><td>7</td><td>1</td><td>7</td><td>7</td><td>8</td><td>0</td> </tr> </table>		3	8	—	1	7	1	7	7	8	0	b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.
3	8	—	1	7	1	7	7	8	0			
d. Data Universal Numbering System (DUNS) Number <table border="1"> <tr> <td> </td><td> </td><td>—</td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> </table>				—								e. Are multiple DUNS covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.
		—										

6. AUDITEE INFORMATION

a. Auditee name CENTRAL MONTCALM PUBLIC SCHOOL	
b. Auditee address (Number and street) 621 NEW STREET	
City STANTON	
State MI	ZIP + 4 Code 4 8 8 8 8 —
c. Auditee contact Name CHARLES HAZEKAMP	
Title CHIEF SCHOOL BUSINESS OFFICIAL	
d. Auditee contact telephone (989) 831 — 5243	
e. Auditee contact FAX () —	
f. Auditee contact E-mail	

g. AUDITEE CERTIFICATION STATEMENT — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official	Date Month Day Year / /
----------------------------------	----------------------------------------

Printed Name of certifying official

Printed Title of certifying official

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name ABRAHAM & GAFFNEY, P.C.	
b. Auditor address (Number and street) 108 N. SPRING STREET	
City ST. JOHNS	
State MI	ZIP + 4 Code 4 8 8 7 9 — 1 5 7 4
c. Auditor contact Name STEVEN R. KIRINOVIC	
Title PRINCIPAL	
d. Auditor contact telephone (989) 224 — 6836	
e. Auditor contact FAX (989) 224 — 6837	
f. Auditor contact E-mail	

9. AUDITOR STATEMENT — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor 	Date Month Day Year / /
--------------------------------------------------------------------------------------------------------------	----------------------------------------

PART II**FINANCIAL STATEMENTS (To be completed by auditor)****1. Type of audit report**

Mark either:

1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a reportable condition disclosed?**1 ☐ Yes 2 ☒ No – *SKIP to Item 5***4. Is any reportable condition reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**PART III****FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § ____ .520(b))**

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ ____ .530)1 ☒ Yes 2 ☐ No**4. Is a reportable condition disclosed for any major program? (§ ____ .510(a)(1))**1 ☐ Yes 2 ☒ No – *SKIP to Item 6***5. Is any reportable condition reported as a material weakness? (§ ____ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ ____ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ ____ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service14 ☐ Housing and Urban Development06 ☐ National Endowment for the Humanities82 ☐ United States Information Agency12 ☐ Defense03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation64 ☐ Veterans Affairs84 ☐ Education15 ☐ Interior07 ☐ Office of National Drug Control Policy00 ☒ None81 ☐ Energy16 ☐ Justice07 ☐ Office of National Drug Control Policy☐ Other – Specify:66 ☐ Environmental Protection Agency17 ☐ Labor59 ☐ Small Business Administration09 ☐ Legal Services Corporation

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages

1

PART III **FEDERAL PROGRAMS - Continued****9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

CFDA Number			Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report (h)	10. AUDIT FINDINGS	
Federal Agency Prefix ¹ (a)	Extension ² (b)	1					2	Type(s) of compliance requirement(s) ⁴ (a)		Audit finding reference number(s) ⁵ (b)	
8 4	010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 440,561 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U		O	N/A	
8 4	298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE VI	\$ 12,970 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
8 4	318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TECHNOLOGY LITERACY CHALLENGE GRANTS	\$ 10,998 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
8 4	367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IMPROVING TEACHER QUALITY	\$ 79,808 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
8 4	186	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRUG-FREE PROGRAM	\$ 3,500 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
1 0	553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SCHOOL BREAKFAST PROGRAM	\$ 60,457 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
1 0	555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL LUNCH PROGRAM	\$ 212,309 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
1 0	550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FOOD DONATION	\$ 41,521 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No			O	N/A	
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
TOTAL FEDERAL AWARDS EXPENDED					\$ 862,124 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS					

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (**U** = Unqualified opinion, **Q** = Qualified opinion, **A** = Adverse opinion, **D** = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
 N/A for NONE
- E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance
- L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART I **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.										f. List the multiple DUNS covered in the report.									
1	N	/	A	21					41						1				21
2		-		22					42						2				22
3		-		23					43						3				23
4		-		24					44						4				24
5		-		25					45						5				25
6		-		26					46						6				26
7		-		27					47						7				27
8		-		28					48						8				28
9		-		29					49						9				29
10		-		30					50						10				30
11		-		31					51						11				31
12		-		32					52						12				32
13		-		33					53						13				33
14		-		34					54						14				34
15		-		35					55						15				35
16		-		36					56						16				36
17		-		37					57						17				37
18		-		38					58						18				38
19		-		39					59						19				39
20		-		40					60						20				40

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.

Principals

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MANAGEMENT LETTER

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

As you know, we have recently completed our audit of the records of Central Montcalm Public School as of and for the year ended June 30, 2004. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Athletic gate receipts should be supported by documentation.

During the course of our audit, we noted that athletic gate receipts are not reconciled or supported by documentation (i.e., reconciliation of ticket sales, tally sheets, etc.).

We suggest that the District review its policies regarding collections for admission to athletic events and implement procedures to assure that the revenue collected is reconciled to supporting documentation, that it is accurate, appropriate, and deposited intact at the bank.

2. All disbursements should be reviewed to assure accuracy and appropriateness.

During the course of our audit, we noted that the District paid a vendor and reimbursed an employee for sales tax on District purchases. It was also noted that costs were charged to the Title I grant (tissues for \$4 charged as teaching supplies) that appeared to be unallowable. While these particular disbursements were not material to the District as a whole, they were internal control issues that should be addressed.

We suggest that all disbursements be reviewed for accuracy and allowability prior to disbursement of District funds.

3. Food service commodities accounting procedures should be modified.

During the course of our audit, it was noted that formal procedures had not been put in place to properly account for the District's food service commodities recognition within the general ledger. The District did not adequately document receipt and usage to assure proper accounting and control over the District's inventory. Also, the District does not reconcile amounts received to the Recipient Entitlement Balance Report.

We suggest the District implement formal policies regarding the accounting and control over food service commodities. These procedures should include the steps necessary to properly safeguard and track all inventory as it is received and used.

4. The decentralized accounting systems should be reviewed and modified to assure adequate internal controls are in place.

Various decentralized activities of the District (i.e., Student Activities) operate accounting systems separately from the Central Business office. Summarized financial information is accumulated on these activities and recorded periodically in the centralized accounting system.

During our analysis and testing of the internal control structure related to these decentralized accounting systems, we noted the following areas that we feel could be improved:

- a. Upper Elementary - The building secretary, without counting the funds brought to the building office, writes a receipt to the teacher/advisor bringing the funds to be deposited for the amount the teacher/advisor indicates is present. Also, minimal information is provided back to the teacher/advisor on their monthly account balances.

We suggest the secretary, in the presence of the individual bringing funds to be deposited, count the money and issue a receipt. Each activity should also receive monthly reports showing beginning balances, funds received and disbursed, and ending balances.

- b. Stanton and Sheridan Elementaries - The individuals bringing funds to the building secretaries do not count and fill out a deposit slip prior to leaving the funds with the secretaries. The secretaries then count the money and fill out a deposit slip and do not issue a receipt back to the teacher/advisor. Also, minimal information is provided back to the teacher/advisor on their monthly account balances.

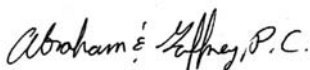
We suggest each teacher/advisor count the money and fill out a deposit slip prior to bringing the funds to the secretary in their building. The secretary should then count the money in the presence of the teacher/advisor and write a receipt. Each activity should also receive monthly reports showing beginning balances, funds received and disbursed, and ending balances.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated August 5, 2004.

With respect to the areas reviewed, it appeared the overall structure of the accounting system was adequate. The individuals processing the financial and program data appear to be performing their functions very effectively and efficiently. We appreciate the business staff's obvious time and commitment that was put forth to provide us with the financial information needed to complete our audit.

This report is intended solely for the information and use of the Board of Education and administration of Central Montcalm Public School and the pass-through grantors, and the U.S. Departments of Agriculture and Education and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2004